

FDIC State Profile

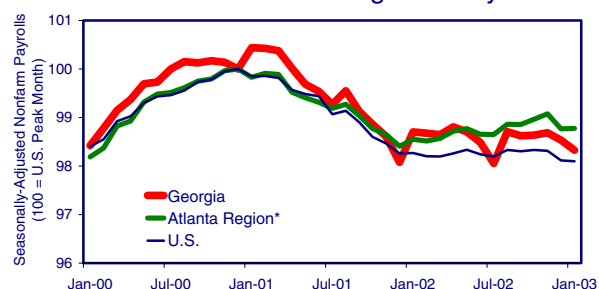
SUMMER 2003

Georgia

The Georgia economy continues to struggle, as the economic recovery remains weak.

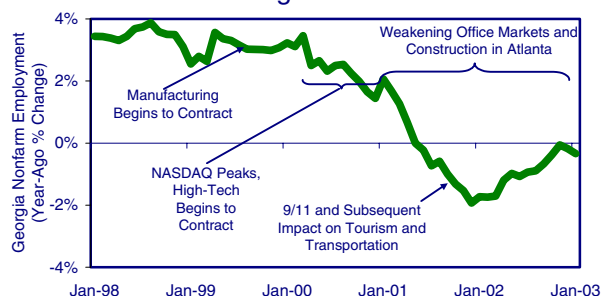
- The Georgia state economy has lost more than 83,000 jobs since the beginning of the recession. During the fourth quarter of 2002, employment levels had increased slightly from one year earlier, but declining levels in early 2003 suggest further weakening of local labor markets during the first quarter (see **Chart 1**).
- The state's prolonged decline into recession was the result of a series of economic shocks (see **Chart 2**). Employment growth peaked at nearly 4 percent in 1998. By mid-1999, however, the state's manufacturing sector began to contract, particularly as losses in traditional industries, such as textiles and apparel, in primarily non-metropolitan areas accelerated. This was followed in 2000 with the downturn in the NASDAQ stock exchange. Job losses in the state's high-tech industries cooled absorption in previously booming office markets in the **Atlanta** MSA, where substantial amounts of new space continued to come on line. Even before 9/11, the combined effects of these shocks resulted in negative job growth. However, the aftermath of 9/11 adversely affected the state's transportation services and tourism industries, further exacerbating the state's economic conditions.
- Georgia's weak economy has negatively affected the state's budget. Revenue growth has been unstable (see **Chart 3**), as personal income and sales tax collections remain weak. For the cumulative fiscal year, revenues are down 2.8 percent. To close the budget deficit, education spending will be cut by nearly \$200 million, which could lead to layoffs throughout local school districts as well as property tax increases.
- Housing activity remains strong, as existing home sales rebounded towards the end of 2002. Home price appreciation continues in the state, but at a declining rate. According to the Office of Federal Housing Enterprise Oversight, price gains are moderating in most Georgia metro areas, including Atlanta, **Athens**, and **Macon**, but through year-end 2002 were still rising at twice the inflation rate.

Chart 1: Employment Conditions in Georgia Continued to Weaken Through January 2003



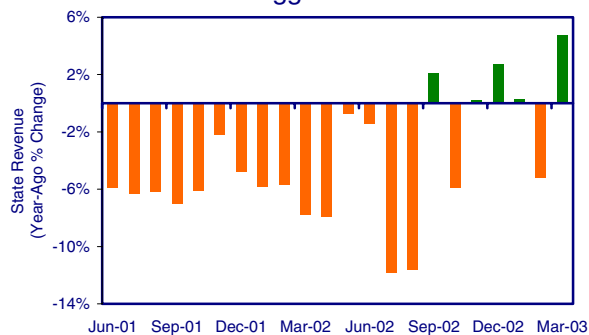
*Atlanta Region includes AL, FL, GA, NC, SC, VA, WV
Source: Bureau of Labor Statistics/Haver Analytics

Chart 2: A Series of Four Shocks to the Economy Pushed Georgia into Recession



Source: Bureau of Labor Statistics/Haver Analytics

Chart 3: Georgia State Revenues Struggle to Recover

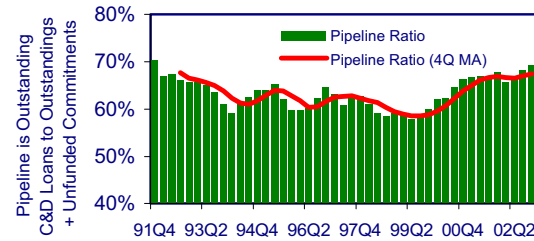


Source: Georgia Department of Revenue

Community banks¹ headquartered in Georgia continued to report sound conditions, but heightened balance sheet risk combined with economic weakness could lead to asset quality concerns.

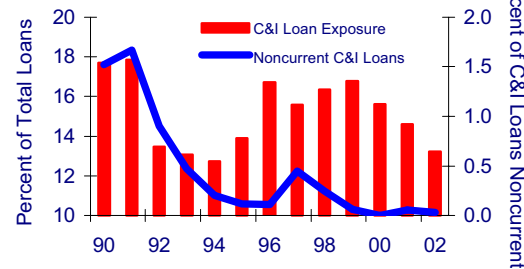
- Overall performance among community banks headquartered in Georgia improved during 2002. The median return on assets ratio rose slightly to 1.13 percent during the year, led by gains at the Region's smaller institutions (assets less than \$500 million). Median ROAs increased by over 20 basis points in the Athens, **Augusta**, Atlanta, and **Columbus** metro areas during the year, but declined in Macon.
- Although lowering funding costs, aggressive interest-rate cuts by the Federal Reserve helped to compress margins in 2001 as core deposits repriced more slowly than assets at most community banks. However, continued use of noncore funding, combined with the repricing of some core deposits in 2002, was instrumental in lowering funding costs and driving NIMs slightly higher at these banks. The median NIM gained eight basis points to 4.45 percent during 2002, but remains among the lowest levels reported over the past decade.
- Despite weak economic conditions during 2002, community bank loan portfolios grew 15 percent. The majority of this increase occurred in commercial real estate (CRE) loans, a segment that includes construction and development (C&D) and nonresidential loans, with strong growth also reported in home equity loans. As of year end, CRE loans represented 32 percent of assets, up from 29 percent one year ago and 19 percent five years ago.
- The majority of the growth in CRE loans and exposure levels has occurred among community banks headquartered in the Atlanta MSA. At the end of 2002, CRE loans represented 44 percent of assets in the Atlanta MSA, the highest of all metro areas. The combination of substantial exposures with economic weakness has resulted in slight asset-quality problems, with past-due CRE ratios rising modestly in the Atlanta MSA, as well as in the Athens and **Savannah** metro areas, during 2002. The significant level of loan growth could also be masking additional problems in asset quality.
- Despite the effects of the recession on the local economy and the relatively high level of C&D exposure, home price appreciation and income growth in the Atlanta area have diverged only slightly since 1998, a relationship supporting price levels in the current housing market. Recent increases in foreclosure rates across the Atlanta Region, however, may indicate how housing mar-

Chart 4: Use of Credit Lines Could Mask Asset Quality Problems Among Community Banks¹ Headquartered in the Atlanta MSA



¹Commercial banks with assets less than \$1 billion, excluding specialists. Source: Bank Call Reports, Data through 4th quarter 2002.

Chart 5: C&I Lending Exposures have Declined Among Community Banks Headquartered in the Atlanta MSA.



Source: Bank and Thrift Call Reports, medians

kets will perform in the near term. While this may not bode well for C&D loan performance, restructuring of outstanding debts and the use of credit lines to meet cash flow demands has kept reported deterioration in asset quality to a minimum (see **Chart 4**).

- Soft business profits and flat corporate spending contributed to weakening conditions among Atlanta area commercial and industrial (C&I) lenders since the beginning of the recession. Median net charge-offs rose during 2001, but have since fallen slightly to 0.16 percent during 2002. Unlike CRE loan volume, which has continued to grow during this downturn, C&I loan exposure has dwindled because of the decline in business investment and spending (see **Chart 5**).

¹ Community banks have assets less than \$1 billion and exclude specialty institutions and thrifts.

Georgia at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	341	347	361	373	377
Total Assets (in thousands)	191,949,005	183,526,126	175,265,969	94,299,477	83,393,954
New Institutions (# < 3 years)	37	40	48	43	34
New Institutions (# < 9 years)	87	82	74	64	65
Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	9.14	9.06	9.26	9.09	9.39
Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	2.21%	2.38%	2.10%	1.75%	2.09%
Past-Due and Nonaccrual >= 5%	46	56	47	42	57
ALLL/Total Loans (median %)	1.33%	1.32%	1.32%	1.38%	1.42%
ALLL/Noncurrent Loans (median multiple)	1.75	1.81	2.12	2.62	2.21
Net Loan Losses/Loans (aggregate)	0.50%	0.72%	0.55%	0.84%	1.09%
Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	34	37	29	31	34
Percent Unprofitable	9.97%	10.66%	8.03%	8.31%	9.02%
Return on Assets (median %)	1.11	1.04	1.19	1.18	1.17
25th Percentile	0.69	0.57	0.83	0.79	0.82
Net Interest Margin (median %)	4.40%	4.31%	4.81%	4.75%	4.81%
Yield on Earning Assets (median)	6.99%	8.39%	9.09%	8.59%	8.87%
Cost of Funding Earning Assets (median)	2.55%	4.00%	4.26%	3.80%	4.03%
Provisions to Avg. Assets (median)	0.29%	0.27%	0.26%	0.21%	0.23%
Noninterest Income to Avg. Assets (median)	0.80%	0.79%	0.79%	0.82%	0.81%
Overhead to Avg. Assets (median)	3.15%	3.21%	3.30%	3.33%	3.36%
Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	84.71%	83.47%	81.41%	78.16%	74.23%
Loans to Assets (median %)	71.18%	69.92%	68.61%	67.01%	64.72%
Brokered Deposits (# of Institutions)	105	86	74	54	38
Bro. Deps./Assets (median for above inst.)	5.88%	4.20%	4.06%	2.93%	3.54%
Noncore Funding to Assets (median)	21.62%	21.54%	21.17%	19.45%	16.45%
Core Funding to Assets (median)	67.00%	67.07%	67.49%	69.50%	72.29%
Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	242	251	263	266	276
National	62	59	67	71	65
State Member	15	14	8	8	8
S&L	6	6	7	6	6
Savings Bank	16	17	16	22	22
Mutually Insured	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	204	29,587,202	59.82%	15.41%	
Atlanta GA	94	147,133,052	27.57%	76.65%	
Macon GA	11	1,591,039	3.23%	0.83%	
Chattanooga TN-GA	8	1,053,017	2.35%	0.55%	
Savannah GA	7	942,977	2.05%	0.49%	
Athens GA	6	1,539,400	1.76%	0.80%	
Columbus GA-AL	4	4,332,860	1.17%	2.26%	
Albany GA	4	763,291	1.17%	0.40%	
Augusta-Aiken GA-SC	3	5,006,167	0.88%	2.61%	